Can I Sponsor More Than One Retirement Plan?

Yes. The Pension Protection Act of 2006 has fundamentally altered the ability of an employer to sponsor more than one retirement plan. This Act built on the greatly relaxed deduction limits of the 2001 Tax Act, and adds some interesting possibilities. However, limits must be respected as excess contributions will not be deductible. Let's take a closer look at the rules, because there are three possibilities:

1. **Two Defined Contribution (DC) Plans (e.g., a Money Purchase Pension and a Profit Sharing Plan).** Before the tax law was changed in 2001, it was common for a small-business owner to sponsor two plans. That's because profit sharing plans were limited to 15% of the eligible payroll, but other DC pension plans were allowed up to 25% of pay. Today, profit sharing plans allow up to 25% of the eligible payroll to be deducted in a single plan. Thus, it is no longer recommended that a combination of money purchase and profit sharing plans be maintained because it should be less expensive to achieve the same objective in one profit sharing plan.

2. **A 401(k) Plan with another Defined Contribution Plan (e.g., a 401(k) Plan with a Profit Sharing Plan).** It should be noted that 401(k) plans are actually a subset of profit sharing plans. Rather than sponsoring two separate plans, consider whether a single 401(k) profit sharing plan can suffice. Such a design can allow for salary deferrals PLUS matches and profit sharing contributions that do not exceed 25% of the eligible payroll.

3. **A Defined Benefit Plan (DB) and a Defined Contribution (DC) Plan (e.g., a Cash Balance and a 401(k) Plan).** When a DB plan is sponsored, the required contribution must be made each year, regardless of profitability or deductibility. If both a DB plan and a DC plan are funded in the same year, the employer's tax deduction is limited to the required DB plan cost plus certain DC Plan Employer contributions. In general, when the DB plan contribution exceeds 25% of eligible payroll, DC plan Employer contributions up to 6% of eligible payroll are allowed. However, certain "non-professional" Employers sponsoring a DB and a DC plan, where the DB plan is covered by the PBGC, may still contribute up to 25% of payroll to the DC plan, when the DB plan contribution exceeds 25% of eligible payroll. Employee elective salary deferrals to a 401(k) profit sharing plan do not count against the 25% of eligible payroll DC plan Employer deductible limit mentioned above.

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